THE SECRETARY OF STATE
WASHINGTON

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March 3, 1976

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Dear Bill:

I have read your letter on World Bank lending to Nigeria and I appreciate your concerns vis-a-vis the most efficient use of development lending funds. However, I continue to feel that more detriment than gain would result from a U.S. attempt to impose tighter restrictions on international lending to Nigeria because of its high oil income.

The U.S. has significant political and economic interests in Nigeria which might be summed up as: (1) continued access to their natural resources; (2) continued influence on the largest, most powerful black African nation; and (3) continued access to a large and growing market for U.S. exports and investment. Despite the recent blasts against U.S. policy on Angola by the FMG, the basic relationship is still sound and we would not want to imperil it without compelling reason.

The World Bank feels strongly that it should develop a close working relationship with Nigeria and we support this view. Nigeria is the natural leader of the black African constituency, an important bloc in the Bank. It is in our interests to assist the Nigerians in constructing a policy framework for development which is generally Western-oriented with a large role for market forces, and the World Bank can play a major role in this process.

The Honorable
William E. Simon,
Secretary of the Treasury.

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In spite of its oil revenues, Nigeria remains an extremely poor and underdeveloped country (current per capita GDP is $375) with a continuing need for the type of assistance in development planning, project appraisal and implementation, and overall development strategy that the Bank can provide. There appears to be general agreement on this point. The issue is whether Nigeria with its current high level of reserves (nearly $6 billion) and budget surplus should not be forced to pay for this assistance by buying back the loans the IBRD makes to it. The Bank staff is aware of this issue and has attempted to persuade the Nigerians to buy back some loans but without success. Nigeria has, however, purchased over $240 million in bank notes, offsetting the $150 million they received in loans last year.

We believe that the benefits to be gained by asking the Bank to curtail or cease lending are small and doubtful while the costs in terms of deteriorating bilateral relations are likely to be significant and unnecessary. As you know we already face one bilateral strain through the Trade Act which excludes Nigeria and other OPEC producers from GSP benefits. We do not need to add voluntarily another irritant in the present situation. In our contingency plans for the renewed hostilities in the Middle East and with the possibility of another embargo by Arab oil producers, we have to be able to count on drawing on our bilateral relations with non-Arab oil exporters to assure maximum production from them. Further, Nigeria is expected to play a key role in the CIEC discussions where we will need moderate friends in the developing country group.

Other major donors have given us virtually no support in our earlier efforts to persuade the Bank to stop lending to OPEC countries. If we continue, we would be fighting alone a battle we are going to lose. Finally, we are phasing out our bilateral aid programs in Nigeria. However, we feel that some development assistance is necessary and therefore continue to support multilateral assistance.

I would agree with you that Nigeria's current economic situation does not justify a massive IBRD lending program there. Further, I do not believe that a large scale program is necessary to accomplish our objectives. Nevertheless, I do feel strongly that given our political and economic interests, we should not attempt to limit the Bank's lending to Nigeria to the extent that you propose. It would appear that the three loans now ready for Board action have progressed far enough that any attempt to block them would be obvious to all concerned and could be damaging to our interests in seeking to foster a constructive relationship between the Bank and Nigeria. By working closely with the Bank management, I would hope we would be able to persuade the Bank to keep the size and frequency of future loans at a level such that the concerns you spell out in your letter are adequately dealt with.

Warm regards,

Henry A. Kissinger